



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

SAGINAW PREPARATORY ACADEMY

Saginaw, Michigan

Financial Statements

June 30, 2006

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	
Management's Discussion and Analysis	1
Academy Wide Statement of Net Assets	8
Academy Wide Statement of Activities	9
Governmental Funds Balance Sheet	10
Reconciliation of Balance Sheet of Governmental Funds to Academy Wide Statement of Net Assets	11
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Academy Wide Statement of Activities	13
Notes to Financial Statements	14
Required Supplemental Information	
Budgetary Comparison	25
Additional Supplemental Information	
Schedule of Outstanding Certificate Indebtedness	27
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28



Gardner | Provenzano Schauman & Thomas

CELEBRATING 100 YEARS OF ACCOUNTANCY

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

September 7, 2006

To the Board of Directors
Saginaw Preparatory Academy
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities of Saginaw Preparatory Academy, as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Saginaw Preparatory Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Saginaw Preparatory Academy as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Saginaw Preparatory Academy
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006, on our consideration of Saginaw Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provengano, Schauman & Thomas, P.C.

Certified Public Accountants

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Saginaw Preparatory Academy annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Saginaw Preparatory Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the general fund, food service fund, athletic fund and debt service fund.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net assets - the difference between assets and liabilities,

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Reporting the Academy as a Whole - Academy-wide Financial Statements (continued)

as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics and food services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2006 and June 30, 2005.

Table 1

Assets	2006	2005
Current and other assets	\$ 733,627	\$ 1,025,782
Capital assets -		
Net of accumulated depreciation	2,878,929	2,935,982
Total Assets	3,612,556	3,961,764
Liabilities		
Current liabilities	317,690	543,462
Noncurrent liabilities	3,645,000	3,720,000
Total Liabilities	3,962,690	4,263,462
Net assets		
Invested in capital assets -		
Net of related debt	(841,071)	(854,018)
Restricted for Debt Service	378,010	356,725
Unrestricted	112,927	195,595
Total Net Assets	\$ (350,134)	\$ (301,698)

The Academy's net assets were (\$350,134) at June 30, 2006. Capital assets, net of related debt totaling (\$841,071), compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from general fund revenue as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The Academy has assets restricted for debt service of \$378,010. The remaining amount of net assets \$112,927 was unrestricted.

The \$112,927 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

Table 2

Revenue		
Program revenue	2006	2005
Charges for services	\$ 1,899	\$ 2,623
Grants	636,770	722,828
General revenue		
State foundation allowance	1,237,271	1,450,609
Other	55,199	7,289
Total Revenue	<u>1,931,139</u>	<u>2,183,349</u>
Function/Program expenses		
Instruction	701,497	700,671
Support services	776,370	915,392
Community services	3,526	3,441
Food services	119,249	138,354
Athletics	4,330	-
Interest on long-term debt	256,095	259,800
Depreciation (unallocated)	118,508	214,526
Total Expenses	<u>1,979,575</u>	<u>2,232,184</u>
Increase (decrease) in Net Assets	<u>\$ (48,436)</u>	<u>\$ (48,835)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$1,979,575. Certain activities were partially funded from those who benefited from the programs through charges for services in the amount of \$1,899. Governments and organizations that subsidized certain programs with grants and contributions totaled \$636,770. We paid for the remaining "public benefit" portion of our governmental activities with \$1,237,271 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The Academy experienced a decrease in net assets of \$48,436. The key reason for the change in net assets was a decrease in student enrollment.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$490,937, which is a decrease of \$61,383 from last year. The primary reason for the decrease was the inability to control expenditures in the face of declining revenues.

In the general fund, our principal operating fund, the fund balance decreased to \$112,927. The decrease of \$82,668 was mainly due to a decrease in enrollment.

The general fund balance is available to fund costs related to allowable school operating purposes.

The debt service fund showed a fund balance increase of \$21,285. Debt service fund balance is reserved since it can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

First vs. Final Budget

There were significant revisions made to the 2005-2006 general fund original budget. Budgeted revenues were decreased \$99,007 due to actual student enrollment being less than original estimates.

Budgeted expenditures were also decreased \$23,758 to account for the decrease in salaries and purchased professional services resulting from the Academy's revised operating plan due to the fluctuations in revenue. The amount of transfers to other funds established in the amended budget was decreased to \$345,898 to represent support provided by the general fund to the debt service fund.

Final Budget vs. Actual Results

The actual results for revenue in the general fund were \$96,725 less than anticipated. The largest part of this variance is in federal revenue and is due to funds not requested and not spent at June 30, 2006.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Final Budget vs. Actual Results (continued)

The actual results for expenditures were \$44,585 less than anticipated. Most of this variance can be seen in the added needs function and is directly related to federal grants not spent at June 30, 2006.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the Academy had a net investment in capital assets of \$2,878,929 including land, land improvements, buildings, furniture and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of \$57,053 from last year.

	<u>2006</u>	<u>2005</u>
Land	\$ 30,000	\$ 30,000
Land Improvements	20,011	20,011
Buildings	3,232,022	3,232,022
Furniture & Equipment	<u>474,225</u>	<u>412,770</u>
Total Capital Assets	3,756,258	3,694,803
Less Accumulated Depreciation	<u>877,329</u>	<u>758,821</u>
Net Capital Assets	<u>\$ 2,878,929</u>	<u>\$ 2,935,982</u>

This year's additions of \$61,455 included a phone system and computers. No debt was issued for these additions.

In fiscal year 2006-2007 we anticipate capital additions will be comparable to 2005-2006 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$3,720,000 in Full Term Certificates of Participation outstanding. We present more detailed information about long-term liabilities in the notes to the Financial Statements.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2007 budget was adopted in May 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 69 percent of total general fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007 school year, we anticipate that the fall student count will be near the estimates used in creating the 2007 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, The Leona Group, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823.

SAGINAW PREPARATORY ACADEMY
 ACADEMY WIDE STATEMENT OF NET ASSETS
 JUNE 30, 2006

	Governmental Activities
Assets	
Cash & cash equivalents	\$ 55,678
Investments	366,675
Accounts receivable	2,642
Due from other governmental units	303,130
Prepays	5,502
Capital assets less accumulated depreciation	2,878,929
Total Assets	<u>3,612,556</u>
Liabilities	
Accounts payable	31,587
Accruals	74,547
Due to management company	68,374
Note payable	68,182
Certificates payable, due within one year	75,000
Noncurrent liabilities	
Certificates payable, due in more than one year	3,645,000
Total Liabilities	<u>3,962,690</u>
Net Assets	
Invested in capital assets net of related debt	(841,071)
Restricted for debt service	378,010
Unrestricted	112,927
Total Net Assets	<u>\$ (350,134)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
ACADEMY WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 701,497	\$ -	\$ 459,044	\$ (242,453)
Support services	776,370	-	76,284	(700,086)
Community services	3,526	-	-	(3,526)
Food services	119,249	1,899	101,442	(15,908)
Athletics	4,330	-	-	(4,330)
Interest on long-term debt	256,095	-	-	(256,095)
Depreciation (unallocated)	118,508	-	-	(118,508)
Totals	<u>\$ 1,979,575</u>	<u>\$ 1,899</u>	<u>\$ 636,770</u>	<u>(1,340,906)</u>
General revenues:				
State aid - unrestricted				1,237,271
Interest				13,297
Other				41,902
Total General Revenues				<u>1,292,470</u>
Change in Net Assets				(48,436)
Net Assets - Beginning of Year				(301,698)
Net Assets - End of Year				<u>\$ (350,134)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2006

	General Fund	Food Service	Athletics	Debt Service	Totals
<u>Assets</u>					
Cash & cash equivalents	\$ 55,678	\$ -	\$ -	\$ -	\$ 55,678
Investments	-	-	-	366,675	366,675
Accounts receivable	2,642	-	-	-	2,642
Due from other funds	-	-	-	11,335	11,335
Due from other governmental units	303,130	-	-	-	303,130
Prepaid expenditures	5,502	-	-	-	5,502
Total Assets	<u>\$ 366,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378,010</u>	<u>\$ 744,962</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 31,587	\$ -	\$ -	\$ -	\$ 31,587
Accrued liabilities	74,547	-	-	-	74,547
Due to other funds	11,335	-	-	-	11,335
Due to management company	68,374	-	-	-	68,374
Notes payable	68,182	-	-	-	68,182
Total Liabilities	<u>254,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,025</u>
<u>Fund Balance</u>					
Reserved for debt service	-	-	-	378,010	378,010
Unreserved and undesignated	112,927	-	-	-	112,927
Total Fund Balance	<u>112,927</u>	<u>-</u>	<u>-</u>	<u>378,010</u>	<u>490,937</u>
Total Liabilities and Fund Balance	<u>\$ 366,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378,010</u>	<u>\$ 744,962</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
 RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO ACADEMY WIDE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total Fund Balances - Governmental Funds	\$ 490,937
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	3,756,258
Accumulated depreciation is	(877,329)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Certificates of Participation payable	<u>(3,720,000)</u>
Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ (350,134)</u>

The accompanying notes are an integral part of these financial statements.

**SAGINAW PREPARATORY ACADEMY
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

	General	Food Service	Athletics	Debt Service	Totals
Revenue					
Local	\$ 34,502	\$ 1,899	\$ -	\$ 13,297	\$ 49,698
Other political subdivisions	6,850	-	-	-	6,850
State	1,459,770	6,886	-	-	1,466,656
Federal	312,829	94,556	-	-	407,385
Total Revenue	1,813,951	103,341	-	13,297	1,930,589
Expenditures					
Instruction	721,320	-	-	-	721,320
Supporting services					
Pupil support	12,135	-	-	-	12,135
Instructional staff	133,370	-	-	-	133,370
General administration	142,309	-	-	-	142,309
School administration	160,244	-	-	-	160,244
Business	58,250	-	-	4,600	62,850
Operations and maintenance	201,753	-	-	-	201,753
Pupil transportation services	38,308	-	-	-	38,308
Central services	64,130	-	-	-	64,130
Facilities acquisitions	2,903	-	-	-	2,903
Community services	3,526	-	-	-	3,526
Food service	-	119,249	-	-	119,249
Athletics	-	-	4,330	-	4,330
Debt service	91,250	-	-	234,845	326,095
Total Expenditures	1,629,498	119,249	4,330	239,445	1,992,522
Excess (Deficiency) of Revenues over Expenditures	184,453	(15,908)	(4,330)	(226,148)	(61,933)
Other Financing Sources (Uses)					
Sources	550	15,908	4,330	247,433	268,221
Uses	(267,671)	-	-	-	(267,671)
Total Other Financing Sources (Uses)	(267,121)	15,908	4,330	247,433	550
Net Change in Fund Balance	(82,668)	-	-	21,285	(61,383)
Fund Balance, Beginning	195,595	-	-	356,725	552,320
Fund Balance, Ending	<u>\$ 112,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378,010</u>	<u>\$ 490,937</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
 ACADEMY WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

Net Change in Fund Balances - Governmental Funds	\$ (61,383)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(118,508)
Capital outlay	61,455
Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities	
Certificates of Participation payable	70,000
Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ (48,436)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

A. Reporting Entity

Saginaw Preparatory Academy was formed as a Public school academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1997, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended until June 30, 2008. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fee paid for the year ended June 30, 2006 to the Saginaw Valley State University Board of Trustees was \$37,118.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the Academy does not contain component units.

The Academy's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the Academy are discussed below.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements

The Statement of Net Assets and the Statement of Activities are Academy-Wide statements and display information about the Academy as a whole. The Academy-Wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities. These statements distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-Wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore, reconciliation is included to identify the relationship between the Academy-Wide statements and the statements for the governmental funds.

The Statement of Activities presents a comparison between program expenses and program revenues. Revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws resources from the general revenues of the Academy.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The special revenue funds maintained by the Academy are the food service fund and the athletic fund. The food service fund is intended to be self-supporting; however, any deficits are financed from operating transfers from the general fund. This year the athletic fund was supported entirely by the general fund.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on long-term debt. The general fund transfers in revenue to cover the principal and interest on the long-term debt.

Usually the emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds as determined by GASB 34.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the fund level statements.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Basis of Accounting

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Investments

Investments held at June 30, 2006 were invested in Treasury obligations.

Receivables & Due Froms

Receivables and due froms consist of all revenues earned at year-end but not yet received.

Prepays

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Land improvements	15 years
Buildings	39 years
Furniture and equipment	3-7 years

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Capital Assets and Depreciation (continued)

The Academy's basic capitalization policy is to capitalize all capital assets with a cost of over \$1,000, other than software, which is capitalized when the cost is \$10,000 or more.

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of items related to payroll liabilities, specifically the withholding of employees' portion for insurance payments.

Due to Management Company

Due to the management company consist of amounts due on contracted employee's management fees, and other services provided that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended. At June 30, 2006, the Academy had no deferred revenue.

Notes Payable

Notes payable consist of a state aid anticipation note issued for the continuance of operations.

Long-Term Liabilities

Certificates of Participation payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Inter-fund Activity

Inter-fund activity is reported as transfers. Transfers are eliminated upon conversion to full accrual.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy is required to adopt an annual budget before the beginning of the fiscal year for the general fund and special revenue funds. The accounting basis of the budgets is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The Academy's Administrator normally submits to the Board of Directors a proposed budget by June 30 of each year. The budget includes proposed expenditures and the means to finance them.
2. The Administrator is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Directors.
3. The budget is adopted on a basis consistent with U.S. generally accepted accounting principles.
4. Budgeted amounts shown in the supplemental information reflect amendments approved by the Board of Directors through June 30, 2006.

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by June 30. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The Academy did not have significant expenditure budget variances. Budget variances are illustrated in the required supplemental information.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$55,678 and the bank balance was \$65,817. Of the bank balance, \$911 was covered by federal depository insurance.

A total of \$366,675 of the Academy's investment is held in trust and restricted for debt service and capital acquisition under the terms of the Academy's Certificate of Participation agreements (see Note 6).

Currently, the Academy does not have an investment policy. However, the Academy's investments are currently in Treasury obligations and management considers the risk to be low.

NOTE 4--Short-Term Debt

The Academy had \$68,182 outstanding at June 30, 2006, on a state aid anticipation note due in September of 2006, bearing interest at 5.06%. The following are the changes in short-term debt:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Governmental Activities				
State Aid anticipation note	\$ 154,545	\$ 375,000	\$ 461,363	\$ 68,182
Totals	<u>\$ 154,545</u>	<u>\$ 375,000</u>	<u>\$ 461,363</u>	<u>\$ 68,182</u>

The proceeds from the State Aid anticipation note were used to sustain operations until the Academy received State Aid.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Capital assets not subject to depreciation				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Subtotal	30,000	-	-	30,000
Capital assets subject to depreciation				
Land Improvements	20,011	-	-	20,011
Buildings	3,232,022	-	-	3,232,022
Furniture & Equipment	412,770	61,455	-	474,225
Subtotal	3,664,803	61,455	-	3,726,258
Total Capital Assets	3,694,803	61,455	-	3,756,258
Accumulated depreciation				
Land Improvements	20,011	-	-	20,011
Buildings	387,803	64,601	-	452,404
Furniture & Equipment	351,007	53,907	-	404,914
Total Accumulated Depreciation	758,821	118,508	-	877,329
Total Net Capital Assets	\$ 2,935,982	\$ (57,053)	\$ -	\$ 2,878,929

NOTE 6--Long-Term Debt

The Academy's long-term debt includes \$3,720,000 of Certificates of Participation, bearing interest at rates between 5.40% and 7.00%. The obligations require semi-annual interest payment due on December 1 and June 1, and an annual payment of principal due on June 1, which began June 1, 2002. The certificates are collateralized by a mortgage on the Academy's facility. Twenty percent of the Academy's unrestricted state aid revenue is allowed to be used for debt service on the certificates. At June 30, 2006, the Academy had not exceeded the allowed twenty percent.

Following is a summary of changes in long-term debt of the Academy:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Governmental Activities					
Certificates of Participation	\$ 3,790,000	\$ -	\$ 70,000	\$ 3,720,000	\$ 75,000
Totals	\$ 3,790,000	\$ -	\$ 70,000	\$ 3,720,000	\$ 75,000

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above governmental activity is as follows:

Year Ended	Principal	Interest	Total
2007	\$ 75,000	\$ 252,035	\$ 327,035
2008	80,000	247,610	327,610
2009	85,000	242,810	327,810
2010	90,000	237,625	327,625
2011	95,000	231,775	326,775
2012-2016	570,000	1,058,775	1,628,775
2017-2021	780,000	846,374	1,626,374
2022-2026	1,090,000	538,300	1,628,300
2027-2029	855,000	122,501	977,501
Totals	<u>\$ 3,720,000</u>	<u>\$ 3,777,805</u>	<u>\$ 7,497,805</u>

Governmental Activities

Full Term Certificates of
Participation of the following:
1999 Issue \$4,035,000
Serial and term
certificate due in annual
installments of \$55,000
to \$305,000 through
June 1, 2029; interest
at 5.4% to 7.0%

\$ 3,720,000

Interest expense for the year on all debt totaled \$256,095.

NOTE 7--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 8--Related Party Transactions

The Academy has a management agreement with a for-profit corporation through June 30, 2006. Management fees are based on ten percent of all state and federal revenues and were \$187,410 for the year ended June 30, 2006.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Related Party Transactions (continued)

The management company provides all the resources required to operate the Academy including administration, instruction and operations. All Academy personnel are provided by the management company. The related payroll expenses paid to the management company for the year ended June 30, 2006, approximated \$876,862.

NOTE 9--Lease Commitments

The Academy has a lease agreement for copiers. The amount expensed under the lease for the fiscal year was \$5,460. Minimum annual future payments are \$5,460 and \$4,095 for the years ending June 30, 2007 and 2008, respectively.

NOTE 10--Interfund -- Receivables, Payables, and Transfers

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Food Service	\$ 15,908	General	\$ 15,908
Athletics	4,330	General	4,330
Debt Service	247,433	General	247,433
	<u>\$ 267,671</u>		<u>\$ 267,671</u>

Due From		Due To	
General Fund	<u>\$ 11,335</u>	Debt service	<u>\$ 11,335</u>

The transfers to the food service and athletics funds were to subsidize those programs. The transfer to the debt service fund was to cover principal and interest on long-term debt.

The amount due to the debt service fund from the general fund represents the amount that will be transferred in July and August for debt service.

NOTE 11--Designated Fund Balance

The debt service fund balance is designated for the purpose of servicing long-term debt.

NOTE 12--Subsequent Event

On August 22, 2006 the Academy entered into a State Aid note in the amount of \$500,000 with an interest rate of 6.20% and a maturity date of September 5, 2007.

REQUIRED SUPPLEMENTAL INFORMATION

Saginaw Preparatory Academy
Budgetary Comparison
For the Year Ended June 30, 2006

	General Fund			Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue						
Local	\$ 2,000	\$ 29,130	\$ 34,502	\$ 3,500	\$ 1,650	\$ 1,899
Other political subdivisions	5,032	6,850	6,850	-	-	-
State	1,689,494	1,443,351	1,459,770	-	6,886	6,886
Federal	313,707	431,345	312,829	116,860	86,220	94,556
Incoming transfer and other	-	550	550	40,185	16,900	20,238
Total Revenues	<u>2,010,233</u>	<u>1,911,226</u>	<u>1,814,501</u>	<u>160,545</u>	<u>111,656</u>	<u>123,579</u>
Expenditures						
Instruction						
Basic programs	482,414	437,718	442,313	-	-	-
Added needs	256,266	312,298	279,007	-	-	-
Support Services						
Pupil	30,275	18,112	12,135	-	-	-
Instructional staff	101,679	136,058	133,370	-	-	-
General administration	165,859	146,656	142,309	-	-	-
School administration	163,692	154,964	160,244	-	-	-
Business	64,931	64,920	58,250	-	-	-
Operation and maintenance	215,659	204,969	201,753	-	-	-
Pupil transportation services	42,851	43,984	38,308	-	-	-
Central services	74,306	68,704	64,130	-	-	-
Facilities acquisition	-	-	2,903	-	-	-
Community services	3,400	7,473	3,526	-	-	-
Food service	-	-	-	158,445	108,266	119,249
Athletics	-	-	-	2,100	3,390	4,330
Debt service	-	-	91,250	-	-	-
Outgoing transfers and other	364,180	345,898	267,671	-	-	-
Total Expenditures	<u>1,965,512</u>	<u>1,941,754</u>	<u>1,897,169</u>	<u>160,545</u>	<u>111,656</u>	<u>123,579</u>
Excess (Deficiency) of						
Revenues Over Expenditures	44,721	(30,528)	(82,668)	-	-	-
Fund Balance - Beginning of Year	195,595	195,595	195,595	-	-	-
Fund Balance - End of Year	<u>\$ 240,316</u>	<u>\$ 165,067</u>	<u>\$ 112,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ADDITIONAL SUPPLEMENTAL INFORMATION

Saginaw Preparatory Academy
Schedule of Outstanding Certificate Indebtness
June 30, 2006

1999 Issue \$4,035,000
Interest Rate: 5.4% to 7.0%

Year Ending June 30,	Annual Principal June 1	Semiannual Interest Payment		Total Fiscal Year Requirement
		December 1	June 1	
2007	\$ 75,000	\$ 126,018	\$ 126,017	\$ 327,035
2008	80,000	123,805	123,805	327,610
2009	85,000	121,405	121,405	327,810
2010	90,000	118,812	118,813	327,625
2011	95,000	115,887	115,888	326,775
2012	100,000	112,800	112,800	325,600
2013	105,000	109,550	109,550	324,100
2014	115,000	106,138	106,137	327,275
2015	120,000	102,400	102,400	324,800
2016	130,000	98,500	98,500	327,000
2017	140,000	94,275	94,275	328,550
2018	145,000	89,725	89,725	324,450
2019	155,000	85,012	85,012	325,024
2020	165,000	79,975	79,975	324,950
2021	175,000	74,200	74,200	323,400
2022	190,000	68,075	68,075	326,150
2023	205,000	61,425	61,425	327,850
2024	215,000	54,250	54,250	323,500
2025	230,000	46,725	46,725	323,450
2026	250,000	38,675	38,675	327,350
2027	265,000	29,925	29,925	324,850
2028	285,000	20,650	20,650	326,300
2029	305,000	10,675	10,676	326,351
Totals	<u>\$ 3,720,000</u>	<u>\$ 1,888,902</u>	<u>\$ 1,888,903</u>	<u>\$ 7,497,805</u>



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 7, 2006

To the Board of Directors
Saginaw Preparatory Academy
Saginaw, Michigan

We have audited the financial statements of the governmental activities of Saginaw Preparatory Academy as of and for the year ended June 30, 2006, which comprise Saginaw Preparatory Academy's basic financial statements, and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Saginaw Preparatory Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education
Saginaw Preparatory Academy
Page Two

Compliance

As part of obtaining reasonable assurance about whether Saginaw Preparatory Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gardner, Provengano, Schaumman & Thomas, P.C.

Certified Public Accountants